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(1)

1702

In the Supreme Court of the United States

OCTOBER TERM, 1948

No. 314

UNITED STATES OF AMERICA, PETITIONER

v.

CAL-BAY CORPORATION, MARIA FARIA, JOSEPH FARIA, JR., EDWARD FARIA AND MAE E. ROCHE

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

The Solicitor General, on behalf of the United States of America, prays that a writ of certiorari issue to review the judgment entered in this case on June 29, 1948, by the United States Court of Appeals for the Ninth Circuit.

OPINIONS BELOW

The district court did not write an opinion. The opinion of the court of appeals, one judge dissenting, (R. 1294-1315), is not yet reported.

JURISDICTION

The judgment of the court of appeals was entered on June 29, 1948 (R. 1316). The jurisdiction of this Court is invoked under the Act of June 25, 1948, 28 U. S. C. 1254 (1).

QUESTIONS PRESENTED

1. Whether, in proceedings to determine compensation payable for mineral interests in lands condemned by the United States, the trial judge was authorized to state to the jury that, in his opinion, the values fixed by expert witnesses for the condemnees appeared to be so exaggerated as to make their testimony incredible.

2. Whether the trial court correctly instructed the jury as to the measure of compensation for the taking of the mineral interests.

STATEMENT

The United States instituted this condemnation proceeding on July 22, 1944, to acquire 5,340 acres of land near Port Chicago, California, for expansion of a naval magazine (R. 2-11). Of the land taken, Parcels 57, 58, 59 and 64, comprising approximately 780 acres, are involved here (R. 8-9).

The owners of Parcels 57, 58 and 59 stipulated with the United States as to the amounts to be awarded for their land exclusive of mineral rights under oil and gas leases affecting the parcels (R. 17-28). Pursuant thereto, in March 1945, the court awarded \$15,000 for Parcel 57, \$400 for Parcel 58, and \$26,780 for Parcel 59 (R. 29, 20-21, 25). Compensation for the owner's interest in Parcel 64 is not involved here.

The oil and gas leases referred to in the stipulation were leases which respondent Joseph Faria

and one Bud Hildebrand had obtained from the owners of these parcels in 1941 (R. 184-232). They had also secured leases in 1941 and 1942 on neighboring properties. Altogether, the leases covered approximately 2,100 acres. (R. 232.) The leases were for twenty years and so long thereafter as oil or gas in paying quantities was produced (R. 1218). A one-eighth royalty was reserved to the lessor.

Bud Hildebrand assigned all his interest in these leases to respondent Joseph Faria, and Joseph Faria, in turn, organized the respondent Cal-Bay Corporation on April 17, 1942, and assigned to it 687 acres under these leases (R. 230-232, 315). He retained 1,441 acres (R. 232).

A year prior to the institution of this proceeding, respondents commenced the drilling of an oil or gas well on Parcel 59 and continued intermittently until July 25, 1944, when notice of this action was received (R. 233, 250-255). At that date the well had reached a depth of 4,375 feet (R. 151). Upon application of respondents, the United States agreed to permit continued drilling of the well until thirty days after notice to discontinue should be given (R. 14-16). Thereafter, the well was drilled to a depth of 4,975 feet where, on November 29, 1944, a blow-out of gas collapsed the casing (R. 269, 271, 455, 458). No further drilling was done because of the condition of the well and the fact that notice was received

from the Navy on December 15, 1944, requiring surrender of the premises within the thirty days agreed to (R. 277-278).

Trial to determine the values of the leasehold interests of Joseph Faria and the Cal-Bay Corporation and the mineral rights of the lessors, Maria Faria, Edward Faria, and Mae E. Roche, was had in January and February 1947, before Judge Goodman and a jury (R. 147-1214).

Both sides offered the testimony of expert witnesses on the question as to whether the blow-out was significant, whether gas in commercial quantities had been discovered or would have been discovered in the structure at greater depth and as to the values of the interests condemned in the light of the possibility of gas in paying quantities. In addition to the values of the mineral interests taken from them, respondents sought damages for the severance of these properties from adjacent lands not taken in which they had mineral interests.

The ownerships, acreages, claims, testimony of values and awards for each parcel are set forth in tabular form as an appendix (*infra*, pp. 22-23) to this petition. As may be seen from that tabulation, there is a marked spread between the valuations adduced by the respondents and those of the Government. This is due to the differing views of the expert witnesses for each side as to the possibility that gas was present in commercial quan-

tities beneath the properties taken and the market price for properties with the history and geologic structure of those involved here.

The district court was impressed with what seemed to it to be extreme and exaggerated claims on the part of the landowners. At one point during the trial, after a witness for respondents stated that he knew of a lessor's interest in unproven land which had been sold for \$3,500 a per cent, the court said: "I just can't believe you are telling the truth on that" (R. 906). No objection was made to that statement. The witness then stated that he could prove it by records of the Corporation Department of California. The following colloquy ensued (R. 907-908):

The COURT. Well, I do not know what has happened to our Corporation Department in the State of California. That is all I can say.

Mr. SCAMPINI. If it please the Court, the Seaboard Company—

The COURT. I am sorry to have made this comment. I will tell the Jury to disregard it. It is just a comment of the Court.

Mr. SCAMPINI. I ask now to offer evidence in support of the statement of Mr. Bradford in answer to your Honor's question, and I also protest for the purpose of the record, your Honor's comments in respect to the Corporation Department as being prejudicial to our case before this Jury.

The COURT. I will tell the Jury to disregard the Court's statement. The comment of the Court was on the weight of the evidence and the Jury is not bound by it. The Jury can decide the case if and when it comes time for the Jury to decide the case, according to their own lights and according to the instructions the Court may give them at the time. The Court, of course, has a right to make comments as to the weight of the evidence, but the Jury is not bound by what the Court says in that regard. It may form its own judgment. Does that instruction cover what you have in mind?

Mr. SCAMPINI. Yes, your Honor, thank you. No further questions of the witness.

Near the close of the trial, the judge summoned counsel for both sides and out of the presence of the jury told them that he thought it fair to advise them prior to their argument to the jury that (R. 1138-1143) :

I feel duty bound in this case, from what I have heard, to tell this jury that in the opinion of the court the view of the so-called experts presented by the defendants is entitled to no weight whatsoever, and that the opinions that they have given are fantastic and are at a borderline, at a point where a more serious criticism could be made of them.

* * * I am very frankly stating the view of the court. It is not binding on the jury, and when I give it to them I shall

be most specific to tell the jury that they can come to any opinion that they want on that subject, but I shall nevertheless feel it my duty, as I have had occasion to do only once before in any case since I have presided in this court, to express an opinion on the facts of the case; but I feel that my conscience prompts me in this case to make an observation to the jury as to the opinion of the court as to the weight of this evidence. * * *

I am not called upon to pass upon this question yet, but if the jury were, despite the statement of the court as to its opinion as to the weight of the evidence, to bring in a verdict for any large sum in this case I would feel duty bound to set it aside, because this case does advise [sic] some technical aspects and the jury might very easily be misled.

* * * * *
In order that the record may be quite clear, I wish to repeat again I have made this statement to counsel only for the purpose of advising them in advance, so that counsel may be free, so far as I am concerned, to tell the jury, if they wish, that the judge has already told them his opinion of the weight of the evidence, but counsel are of a different opinion, and they feel free to tell the jury what they think about the case. I have no objection, whatsoever, to the matter being opened up, so that counsel can take, if they wish, the sting out of the judge's comment on the evidence in ad-

vance in their argument, if they wish to, and that is the purpose of my statement now.

Following the advance notice thus given to counsel, the court instructed the jury as follows (R. 1188-1189):

Ordinarily, ladies and gentlemen, the court, as I stated to you before, abstains from expressing opinions as to the weight of the evidence. However, due to the somewhat apparent complexities of this case, and in order to be of assistance to the jury in the proper administration of justice, I believe it is my duty to make the following comment to the jury: In the opinion of the court the values fixed by the expert witnesses produced by the defendants in this case appear to the court to be so exaggerated as to make the testimony of those witnesses incredible. The opinion that I have expressed is just the opinion of the court. A Federal judge is permitted to make such a comment to the jury. The jury is not bound by the opinion of the court. The opinion is expressed as a part of the instructions as to the law for such aid as the jury wishes to make of it in determining the factual question. The jurors individually and collectively are entitled to disagree with the opinion of the court. You may have your own opinion and you can come to it. You are not bound in any manner in making a finding in accordance with the

view expressed by the court. The reason why the court has expressed the opinion is that it appears to the court that there is no factual basis presented in the testimony of the expert witnesses for the defense upon which the opinion of value given by them can be said to rest.

And in defining the measure of compensation, the court instructed the jury, in part, as follows (R. 1182-1185) :

Now, just compensation means the equivalent in money of the interest taken so that the owner may be in the same position pecuniarily he would have occupied had the taking not occurred. Just compensation in condemnation is determined on the basis of the market value of the property or interest taken at the time of the taking by the Government. Thus the market value becomes the measure of damage. The test is not value for special purpose. It is the fair market value in view of all the purposes to which the property or interest is naturally adaptable. It is the highest value in terms of money which the property or interest will bring if exposed to sale for cash in the open market in the community in which it is situated, with a reasonable time to find a purchaser buying with full knowledge of all the uses and purposes to which it is adapted and for which it is capable of being used, the seller not being required to sell or the buyer not being required to buy at the time.

In arriving at the amount of the market value of the interest taken by the Government in this case, that is, the amount in dollars and cents of the market value, you are not to consider what the interest taken was worth to the Government, for to allow that element to enter into your deliberation would be to make the Government's necessity the owner's opportunity. In other words, neither need for selling nor need for purchasing should be considered or should be taken into account. The location of physical characteristics, the advantages and disadvantages of the property or interest which is the subject of the condemnation are proper matters to show in evidence in determining market value. These are matters which naturally would be taken into calculation in forming a public and general estimate of the value of the property or interest taken and influence the minds of the sellers and buyers with relation thereto. Accordingly, to the extent that such matters are shown by the evidence, the Jury may properly consider the same in arriving at its conclusion as to the amount of the just compensation which should be paid.

You are not to consider what the property or interest taken was worth to the defendants or any of them or to the owners of the leasehold or to the owners of the royalty interest for speculation or merely for possible usage, or what the defendants

claim the property or leasehold interest or royalty interest was worth for such purpose, nor what it would be worth to the Government for military purposes or for other purposes. You are not to consider the price that the property or interest would sell or lease for under special or extraordinary circumstances, but only the fair market value if offered in the market under ordinary circumstances for cash, a reasonable time being allowed to make the sale.

The defendants in this case are not entitled to make a profit because the interests which they claim they have were taken from them by the Government. By that I mean that they may not obtain more compensation by reason of the condemnation proceeding than they would obtain as the fair market value of such interest if there had not been a condemnation proceeding. The Government's wartime necessity for the use of this property, for the particular purpose standing alone, cannot be considered in estimating the value of the property taken. Demand created by wartime necessity cannot be considered in estimating the value of the interest taken. Future income or speculative productive value contemplated is not a measure of condemnation value. Profits which might be deprived from devoting the property to a particular purpose depends so much on conditions that cannot be foreseen that they

have no competency. Compensation cannot be awarded for loss of business. The mere fact that a business is conducted on a property which has been taken under the right of eminent domain is interrupted or destroyed by the taking does not constitute a taking of property or interest for which the owner is entitled to compensation. Compensation is to be awarded for the taking of the property or interest itself as distinguished from any activity or business thereon carried on.

Thereafter, on February 7, 1947, the jury returned verdicts awarding compensation for the taking of each separate interest in the properties in the highest amounts testified to by the Government's two expert witnesses (R. 63-67). Judgment was entered in accordance with the verdicts on February 28, 1947 (R. 99-135).

The court of appeals, Judge Healy dissenting, reversed the district court. It held that error was committed (a) in instructing the jury that "Future income or speculative productive value contemplated is not a measure of condemnation value. Profits which might be deprived from devoting the property to a particular purpose depends so much on conditions that cannot be foreseen that they have no competency" while refusing respondents' requested instruction No. 40 (R. 94) that "there is a definite market value even where the prospects of successful development

are too speculative to be reasonably probable;" and (b) in exceeding the bounds of proper comment to the jury on the weight of the evidence.

REASONS FOR GRANTING THE WRIT

1. The right of a federal trial judge to comment on the evidence and to express his opinion upon the facts has been characterized by this Court as one of his "essential prerogatives". *Quercia v. United States*, 289 U. S. 466, 469. See also *Vicksburg, Etc. Railroad Co. v. Putnam*, 118 U. S. 545, 553; *St. Louis, Etc. Railway v. Vickers*, 122 U. S. 360, 363; *Patton v. United States*, 281 U. S. 276, 288-289. The ruling by the court below that the trial court had committed prejudicial error in commenting as he did on the evidence in this case goes far toward depriving the trial judge of this "essential prerogative" for, as the dissenting judge below stated (R. 1314) :

In the present instance the judge did not add to, subtract from or distort the evidence. If his comments are to be held out of bounds it seems to me that little of consequence is left of the federal judge's right to express his opinion on the evidence where he thinks the arrival by the jury at a just conclusion requires that he pursue that course. Here the judge informed counsel in advance of the argument of his purpose of commenting on the expert opinion of values, stating as his reason that if

a verdict were returned in line with defense expert opinion he would feel obliged to set the verdict aside.

Despite the protestations of the majority below of its agreement with the view that trial courts should have wide latitude in commenting upon evidence (R. 1304), the practical deleterious effect of its judgment can be plainly foreseen. The reversal of Judge Goodman in this case for feeling constrained to comment on the weight of the evidence on only the second occasion in his entire judicial career (see *supra*, p. 7), can only convert his previous reluctance to comment into a firm conviction that he should remain silent at all times.

To thus render mute this federal trial judge and others like him and suppress comments on the evidence which are made not recklessly but with notice to counsel and careful precautionary instructions to the jury is seriously to interfere with the proper conduct of a jury trial in all cases. The suppression is particularly damaging in condemnation cases such as this, in which the major evidence is expert testimony, concededly based in large part on speculation. It is in such a case that the trial judge's experience may most usefully be invoked to guard the jury from, and protect the Government against, exaggerated statements of value having little or no basis in fact. Where speculation is inevitable it should at

least be kept within reasonable bounds. Comment by the trial judge is an obvious means of imposing that kind of limitation. It is for this reason that we believe that the decision below raises an important question which should be decided by this Court.

The propriety of any particular comment must, of course, be judged in the light of the entire record and in view of the particular facts and legal issues involved in the case. Cf. *Quercia v. United States*, 289 U. S. at 470. Since the question of the legitimacy of a comment can only arise in the context of a particular case, we believe that that is no obstacle to review on certiorari when, as we believe to be the case here, an appellate court has placed a plainly unwarranted limitation on a trial judge.

2. The situation which evoked the trial judge's comment may be briefly described. In stating their views as to value, the Government witnesses relied, amongst other things, on many transactions involving the sale or lease of mineral interests in lands in the vicinity of the condemned property (the San Francisco district) (R. 1068-1083, 1132, 1134-1137, 1156-1158). Neither of the respondent's valuation witnesses, however, used, as a basis for their opinions, transactions in the vicinity (R. 920, 898). Instead, the witness Wents, Jr., relied on transactions in Los Angeles County (R. 917-919) which the Govern-

ment witness stated related to properties located in or near producing oil land (R. 1073).¹ And Bradford knew of no transactions north of Madera County, none in the San Francisco area; he seems to have assumed, in his testimony, that there had been a commercial discovery on the condemned land (R. 898, 901-902). What the trial judge did in his comment on the evidence was to question the reliability of a valuation opinion based on such distant and apparently not comparable transactions, and on a questionable assumption that there had been a commercial discovery. See *infra*, pp. 17-18.

The respondent's complaint was that the trial judge's instructions "amounts to taking sides" (R. 1199). And the majority of the court below apparently thought this was fatal error. But the essence of the federal judge's power to comment on the evidence is that, to the extent that his analysis thereof is unfavorable to the party presenting it, the court will "take sides." As this Court said in *Patton v. Texas and Pacific Ry. Co.*, 179 U. S. 658, 660, the trial judge "is not a mere moderator of a town meeting."

The majority opinion in the court below recognized that the trial judge did not, as in the *Quercia* case, attempt to add to the evidence.

¹ In his opening statement, respondents' counsel stated that he was not claiming "that we have discovered commercial accumulation of petroleum" but rather "a commercial accumulation of natural gas" (R. 150).

Nevertheless, it based its reversal upon the *Quercia* case on the ground that the judge's statement "that it appears to the court that there is no factual basis presented in the testimony of the expert witnesses for the defense upon which the opinion of value given by them can be said to rest" constituted a statement that "facts are not in evidence when they are" (R. 1302). Elsewhere the opinion below states that there was evidence "from which the jury could have inferred [a] discovery [of commercial gas]" on the condemned property (R. 1296, 1302), and that lease transactions prior to any nearby discovery of gas in commercial quantities properly could be ignored in determining values after such discovery (R. 1300). But this was not the reason given by the witness Wents for disregarding all transactions in Northern California (R. 919-920). Indeed, he testified that the value may actually have been greater before the 1944 exploration was undertaken than it was after the blow-out and the abandonment (R. 826; see also R. 849). Wents recognized that "no geologist has the power of predicting what will actually be in the formations" and stated that his valuation was based upon the possibility of a commercial deposit (R. 812-813). He ignored the Northern California transactions in the vicinity because, he said, in those cases a lease broker or oil company representative was "dealing with a landowner direct and I do not believe that that meets with

a definition of a fair trade" (R. 920).² Thus, the trial court was not, as the court below thought, withdrawing a proven fact from the jury, but was simply expressing his opinion upon the weight to be given the expert testimony.

3. We suggest that the second question raised in this petition for certiorari be reviewed together with the first because the two are closely related in this case³ and because we believe that the court below erred in holding that the trial judge had failed properly to instruct the jury on the question of value.

Since settlement had been made with the owners of the surface of the lands here condemned (R. 17-18), the sole issue at the trial was the compensation to be paid for respondents' interests therein under oil and gas leases. Upon

² The Government did not, as the opinion below states (R. 1306), contend that an expert familiar with values in "proven" areas in Southern California would be incompetent to testify as to the value of a "proven" area in Northern California. The point was that since, as respondents' expert Wents stated, "this is not proven" (R. 855), transactions in "proven" areas did not involve comparable property. And, as the opinions of value were admitted in evidence, the argument relates simply to the weight of the evidence. As the dissenting judge points out (R. 1310), this is not a case where the first profitably producing gas well was actually in operation.

³ Judge Healy, dissenting, said: "The majority's reversal of the judgment appears to be built around an instruction given by the court and the refusal to give appellants' requested instruction No. 40. As I read the opinion other matters are brought in as intensifying the assumed prejudicial effect of the errors first mentioned." (R. 1307.)

appeal, no question was raised as to the admission or rejection of any evidence (R. 144).⁴ Thus, the question presented on the merits relates entirely to the instructions given to the jury.

The majority opinion below based its reversal primarily on the ground that the instructions amounted to a charge that "In determining the value of the leases you are concerned only with the surface value of the land" (R. 1297). Plainly, the jury did not so understand the charge. On that theory, the verdict would have been zero since stipulated surface values had already been paid. Nor did the Government take such a position. It recognized that mineral interests may have a market value even when the prospects of successful development are too speculative and remote to be reasonably probable. *Eagle Lake Improvement Co. v. United States*, 141 F. 2d 562, 564 (C. C. A. 5). Thus, the valuations of the Government experts represented their opinion of the fair market value of the property, taking the

⁴ When the trial court made its comments quoted by the court below (R. 1303, 1305), concerning Bradford's statement as to a sale at an unspecified location at \$3,500 a per cent and as to the corporation permit on the subject, respondents' counsel offered to bring in evidence of the transaction but expressed satisfaction when the court told the jury to disregard the statement and that it was simply comment of the court on the weight of the evidence (R. 907-908). This obviously embraced the remark as to Bradford as well as those concerning the Corporation Department, both of which related to the same subject (cf. R. 1311).

view that it had "speculative value for gas" (R. 1106). They recognized that the problem was to what extent the speculative considerations as to the possibility of production of gas in paying quantities would influence the minds of buyers and sellers (R. 1132, 1145, 1148, 1152). The various factors which would influence market value were considered at length upon the examination and cross-examination of the witnesses during this trial for more than two weeks, and the jury was told to determine "what amount in terms of cash a willing buyer would have paid a willing seller for the mineral rights in this parcel of land with full knowledge of all the facts" (R. 1189).

Under these circumstances, the reference to "future income or speculative productive value" could not have been misunderstood.⁸ A perusal of the entire charge delivered by the trial judge makes it evident that he did not instruct the jury that a leasehold only possibly productive could have no market value. To have given greater effect to estimates of future income and profits would have been inadmissible. See, e. g., *Sharp v. United States*, 191 U. S. 341, 348-350; *United States v. Meyer*, 113 F. 2d 387 (C. C. A. 7). The respondent's requested instruction No. 40 (see *supra*, pp. 12-13) said no more than the trial judge, in essence,

⁸ The majority opinion apparently recognizes that since the measure of just compensation is market value, it may not be determined simply by capitalizing anticipated profits. See *Sharp* and *Meyer* cases cited in the text, *infra*.

charged. Under these circumstances, we believe that there was no error in the charge justifying the reversal by the appellate court.

4. We are not unmindful of the general practice of this Court not to review a decision until the case has been finally determined below. *Hamilton Shoe Co. v. Wolf Brothers*, 240 U. S. 251. However, the ruling of the court below is "fundamental to the further conduct of the case." *United States v. General Motors Corp.*, 323 U. S. 373, 377. Even if this Court should agree with the court below as to the inadequacy of the trial court's instructions with reference to the role of future profits and income (see *supra*, pp. 18-20), the district judge, upon the new trial, would be bound to restrict his comments as directed by the court of appeals, and the decision below is thus final as to that matter. If not reviewed now it can never be corrected. And, since the scope of the power and duty of the federal judge to comment upon the evidence is fundamental to the conduct of all jury trials, an issue of sufficient importance to warrant review by this Court is presented.

CONCLUSION

For these reasons, it is respectfully submitted that this petition for a writ of certiorari should be granted.

PHILIP B. PERLMAN,
Solicitor General.

SEPTEMBER 1948.

APPENDIX

Tabulation of ownerships, acreages, claims, valuations, and awards

	Acre leased	Leased acres taken	Leased acres not taken	Claim	Testimony as to values			Government's witnesses	Awards
					J. Faria	Wents	Bradford		
Parcel 07: Cal-Bay Leasehold.....	(R. 196) 4.98	All		(R. 44) \$5,800	(R. 290) \$5,000	(R. 800) \$5,000	(R. 800) \$5,000	(R. 1080) \$10,000	(R. 1131) \$60
	(R. 190)			(R. 49) \$1,180	(R. 290) \$1,180	(R. 800) \$1,180	(R. 800) \$1,180	(R. 1080) \$10,000	(R. 1131) \$60
Parcel 08: Mao E. Roche Mineral rights.....	4.98	All		\$3,800	\$3,800	\$3,800	\$3,800	\$225	\$225
	(R. 192)			(R. 44) \$1,180	(R. 290) \$1,180	(R. 800) \$1,180	(R. 800) \$1,180	(R. 1080) \$10,000	(R. 1131) \$60
Cal-Bay Leasehold.....	5	All		\$8,900	\$4,000	\$2,575	\$4,000	\$10	\$10
	(R. 192)			(R. 61) \$1,180	(R. 194) \$1,180	(R. 804) \$1,180	(R. 804) \$1,180	(R. 1084) \$10,000	(R. 1134) \$60
Edw. Faria Mineral rights.....	5	All		\$3,500	\$3,500	\$3,500	\$3,500	\$225	\$225
	(R. 790)			(R. 44) \$1,180	(R. 286) \$1,180	(R. 790) \$1,180	(R. 790) \$1,180	(R. 1086) \$10,000	(R. 1136) \$60
Parcel 09: Cal-Bay Leasehold.....	367.36	298.83	168.53	\$461,000	\$207,000	\$411,800	\$408,000	\$420	\$420
				(R. 45) \$1,180	(R. 291) \$1,180	(R. 800) \$1,180	(R. 800) \$1,180	(R. 1080) \$10,000	(R. 1130) \$60
Cal-Bay Severance.....				\$160,000	\$61,000	\$61,100	\$61,100	None	None
J. Faria Leasehold.....	73.51	63.91	9.60	(R. 801) \$17,575	(R. 286) \$23,625	(R. 801) \$17,575	(R. 801) \$23,625	(R. 1086) \$10,000	(R. 1131) \$612
J. Faria Severance.....	(R. 186)			* \$81,850	(R. 290) \$3,750	(R. 186) \$1,180	(R. 186) \$1,180	(R. 1080) \$10,000	(R. 1130) \$60
M. Faria Mineral rights.....	440.87	272.74	168.13	\$75,000	* \$110,000	\$75,235	\$61,200	\$1,470	\$2,313
					(R. 802-3)	(R. 802-3)	(R. 802-3)	(R. 1080-1)	(R. 1130-1)
M. Faria Severance.....				\$35,875				None	None

(R. 207) 228, 55	(R. 207) 0, 65	227, 00	(R. 40) \$175	.....	(R. 801) \$175	.....	(R. 1007) 45	(R. 1127) 45
J. Faria Leasehold.....	.....	.....	(?)	.....	(R. 802, 83)	.....	(R. 1000) None	(R. 1133) None

¹ Testimony of Mac E. Roche (R. 106).

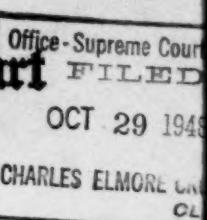
² Testimony of Edw. Faria (R. 164).

³ Includes severance for Parcel 64.

⁴ Testimony of Maria Faria (R. 158).

⁵ See footnote 3.

FILE COPY
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OF THE
United States



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UNITED STATES OF AMERICA,

Petitioner,

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CAL-BAY CORPORATION, MARIA FARIA,
JOSEPH FARIA, JR., EDWARD FARIA,
and MAE E. ROCHE,

Respondents.

On Petition for a Writ of Certiorari to the United States
Court of Appeals for the Ninth Circuit.

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In the Supreme Court
OF THE
United States

OCTOBER TERM, 1948

No. 314

UNITED STATES OF AMERICA,

Petitioner,

vs.

CAL-BAY CORPORATION, MARIA FARIA,

JOSEPH FARIA, JR., EDWARD FARIA,

and MAE E. ROCHE,

Respondents.

On Petition for a Writ of Certiorari to the United States
Court of Appeals for the Ninth Circuit.

BRIEF FOR RESPONDENTS IN OPPOSITION.

OPINIONS BELOW.

No opinion was written in the district court. The opinion of the court of appeals is not yet reported, but appears in the record. R 1294-1315.

JURISDICTION.

The judgment of the court of appeals was entered June 29, 1948. R 1316. No petition for rehearing was filed. Jurisdiction of this court is invoked under the Act of June 25, 1948. 28 U.S.C., sec. 1254 (1).

QUESTIONS PRESENTED.

1. Whether the decision of the court of appeals should be reviewed before the case has been finally determined below.
2. Whether the trial judge misdirected the jury to the prejudice of defendants and respondents on the measure of compensation.
3. Whether defendants and respondents were denied a fair trial and due process of law by the acts and conduct of the trial judge.

STATEMENT.

The action was in condemnation and defendants and respondents therefore had the burden of proving market value of the property taken, namely, lessors' and lessees' mineral rights in land under leases for oil and gas development and upon which they claimed to have discovered petroleum gas of commercial quantities. Their holdings, designated as parcels 57, 58, 59, and 64, were part of a tract of 5,430 acres condemned by petitioner in 1944 to expand an ammunition dump or

United States Naval Magazine. R 2-11. Their holdings were in the second largest metropolitan area in California—an area in which large quantities of natural gas were consumed—an area to which natural gas was being brought from a distance of from 200 to 300 miles. R 1294-1295.

The immediate area in which the parcels were located was oil and gas bearing, and running over the years owners of lands therein, as lessors, had entered into oil and gas leases. These had gradually centered in respondents Cal-Bay Corporation and Joseph Faria, Jr. Their chains of title were undisputed at the trial and established without objection. R 218-232. The leases were uniform and are typified by defendants' exhibit 2. R 1217-1229. Each was for the term of 20 years and so long thereafter as oil or gas in paying quantities was produced. R 1218. Each was on a royalty basis of $12\frac{1}{2}\%$ to the lessor. R 1218-1219. Each required the lessee to commence drilling operations within a year and to diligently prosecute drilling to a depth of 5000 feet. R 1220. Each required the lessee to drill a new well if a dry hole had resulted from previous drillings. R 1221. Each required the eventual drilling of a well on each 20 acres leased. R 1222. Each lease provided that it was one of a series of leases in a general district and that commencement of drilling within a year under one lease should be deemed drilling under all. R 1229.

Respondent Cal-Bay Corporation was incorporated in California on April 17, 1942. R 230-231, 310. It

was incorporated for the purpose of acquiring the oil and gas leases assembled by respondent Joseph Faria, Jr. in the area involved and developing the leased property. R 230-231. Under permits from the Division of Corporations of the State of California *approving a valuation of \$366 per acre* (R 1298) its shares were sold to the public at \$1 a share and over \$250,000 was thus invested in the company by its 632 shareholders. R 232-233, 252, 326, 367-368. All the money thus raised and invested went into the development of the property and the drilling of the well known as Faria No. 1 on parcel 59. R 367-368. No salary or other compensation was received by any officer of the corporation. R 368.

Drilling of the well was commenced in July, 1943, discontinued in November, 1943, and resumed in June, 1944. R 253-254. At a depth of 3000 feet gas showings were found. R 239. At a depth of 4268 feet the volume of gas amounted to 100,000 cubic feet a day, and this increased to 125,000 cubic feet a day as greater depths were reached. R 250.

Location of the well was made on the recommendation of Byron Norris, a consulting geologist and petroleum engineer, and developments were supervised by him. R 621. He had been an inspector in the Division of Oil and Gas of the State of California. R 632. His first inspection of the Cal-Bay properties in March, 1942, was followed by careful examination and tests. R 626-632. He found pronounced surface indications of oil and gas. R 626-632. He found pro-

nounced favorable formations. R 632-644. He recommended the drilling of the well known as Faria No. 1 at the point where it was drilled and was of the opinion that oil or gas would there be encountered at a depth of 5000 feet. R 658, 662.

Drilling of the well was actively in progress when the condemnation action was commenced on July 25, 1944, and the respondent Cal-Bay Corporation was served with notice that petitioner required immediate possession of the lands subject to the action. R 255. All work was stopped. R 256. Conferences with representatives of the Navy resulted in the resumption of drilling operations in August, 1944. With the approval of the district court a stipulation was entered into on September 28, 1944, between the petitioner and respondent Cal-Bay Corporation, whereby the latter was permitted to remain in possession of parcels 58 and 59 and prosecute drilling and other operations thereon "until one month after service by the plaintiff on said defendant, or on its attorneys herein, of written notice of the termination of said right to possession." R 258-260, 279-280. Such notice of termination of right to possession was served upon respondent Cal-Bay Corporation on December 15, 1944, and possession was surrendered pursuant thereto on January 15, 1945. R 280-281.

When drilling had been resumed in August, 1944, with the consent of the Navy representatives, gas showings were encountered at 4760 feet and steadily increased. R 261-263, 266. On November 28, 1944, so

great a volume of gas was encountered at a depth of 4975 feet that it "blew out" the contents of the well and temporarily disabled the well. R 269-275. In the opinion of Byron Norris, a commercial discovery of natural gas had been made. R 682-683. Two weeks later, petitioner notified respondents to vacate the property.

No question of title was involved at the trial. R 218. The sole question was the amount of just compensation to be paid defendants and respondents. Expert testimony by valuation experts as to market value was therefore necessary. For defendants and respondents, expert testimony on the subject was given by John H. Wents, Jr., a consulting petroleum engineer and geologist, and by William G. Bradford, a dealer in oil and gas leases. R 860-866. Uncertainties and speculation necessarily entered into their valuations from the very nature of the case, and properly so. *Montana Ry. Co. v. Warren*, 137 U. S. 330; *Eagle Lake Improvement Co. v. United States*, 5 Cir., 141 F. 2d 562. The trial judge did not agree with the law of these cases. He regarded such valuations as no valuations at all. On a matter subject of expert knowledge he undertook to discredit the experts. He examined witness Wents at length by repeated interrogation showing that uncertainties and speculation entered into the valuations given by the witness. R 854-857. He interrogated witness Bradford as follows (R 905-908):

"The Court: I just wanted to ask a question about this royalty.

Q. You valued the 12½ per cent interest of Maria Faria in this lease, you told me the other

day, at \$41,600. That is about at the rate of \$3,500 a per cent, isn't it?

The Witness: Your Honor, I figured it at \$200 an acre to buy the entire 12½ per cent, if she was going to sell her entire interest.

The Court: If she had a 12½ per cent interest you were going to buy it for \$41,600, that would be at the rate of about \$3,500 a per cent.

A. That is right.

The Court: Where has anybody in California ever paid at \$3,500 a per cent for a landlord's interest in a gas lease where the land was not proven?

A. Your Honor, I just sold one—

The Court: Can you answer that?

A. Yes, I have bought it and sold it for that.

The Court. Where was this?

A. I sold one, a wildcat drilling, sold it to the Seaboard Oil, a matter of record here, in the last three months, \$3,500 for one per cent in three and a half acres.

The Court: Unproven land?

A. It was unproven, your Honor.

The Court: Will you tell me who made that lease, the parties to it, and when it was done?

A. Yes, sir, I will. The Petroleum Corporation and the Producers Oil are the owners. They are San Francisco people here.

The Court: Are you telling me that the Seaboard Oil Company pay you \$3,500 a per cent for a lessor's royalty in an unproved piece of land?

A. Your Honor, Mr. Scampini—

The Court: Just answer that question.

A. Yes, sir, they paid more than that.

The Court: The Seaboard Oil Company for a lessor's interest paid \$3,500 a per cent for an unproved piece of land?

A. Yes, sir, they did.

The Court: I just can't believe you are telling the truth on that.

Mr. Scampini: Your Honor, I will cite your Honor to the corporation permit on the subject before the Corporation Department. I will give your Honor the number of the transaction.

The Court: I asked a very definite question of the witness and he has answered it. We will leave it go at that.

The Witness: I certainly did.

Mr. Scampini: We offer to prove at this time the records of the transaction and bring the records of the transaction and offer them in evidence. One per cent, if it please the Court, sold for over \$6,400, one per cent in three and a half acres. The nearest well being drilled was a mile and a half away, and it ended up in a dry hole, your Honor, and the Seaboard (paid) the cash to the Corporation Department in November of last year.

The Court: For a lessor's—

Mr. Scampini: For a lessor's interest of one per cent.

The Court: Well, I do not know what has happened to our Corporation Department in the State of California. That is all I can say.

Mr. Scampini: If it please the Court, the Seaboard Company—

The Court: I am sorry to have made this comment. I will tell the Jury to disregard it. It is just a comment of the Court. * * *

Witness Wents was also interrogated further by the court after Bradford had testified (R 926-927):

"The Court: * * * I just want to ask another question. I wanted to satisfy my curiosity as to

some of these matters of royalty interest I think you said that you appraised the royalty interest of Maria Faria at 12½ per cent in the 208-acre tract at \$62,250.

A. I believe something like that.

Q. That is at the rate of \$5000 a per cent, approximately?

A. Yes.

Q. Do you happen to know that the highest rate per cent that has ever been paid for lessors' royalty interest in the State of California is?

A. No, I don't but I know of a sale as high as \$140,000 a per cent in land not proven yet. That was at Coalinga.

Q. Do you know what was the highest per cent that has ever been paid the lessor royalty interest in either the Kettleman fields or Coalinga was?

A. \$140,000 in Coalinga. With respect to leasehold interest in Kettleman Hills the Amerada Petroleum Corporation purchased from the Union Oil Company one-half of a 160-acre lease for the sum of eight million dollars, four million dollars in cash and four million dollars out of oil.

Q. That was on the basis of a property already proven?

A. No, that had not been drilled at the time of the sale.

Q. It hadn't been drilled?

A. No, not that particular lease, had not been drilled at the time, according to the information I have. That was the Amerada King lease.

The Court: I have no further questions."

Later, in chambers, the trial judge said (R 1138-1140):

**** I feel duty bound in this case, from what I have heard, to tell this jury that in the opinion of the court the view of the so-called experts presented by the defendants is entitled to no weight whatsoever, and that the opinions that they have given are fantastic and are at a borderline, at a point where a more serious criticism could be made of them." ***

Mr. Seampini. All I can say in reply to your Honor's observations is, with all due respect to your Honor, and to the Court, that it appears to me that the record shows that throughout the trial of this case your Honor has had a somewhat partisan outlook on the litigation before you.

The Court: Not until I had heard the opinion testimony offered by the defendants."

In the jury charge, the trial judge refused (R 94-95, 97) to instruct the jury on the law declared in *Montana Ry. Co. v. Warren*, 137 U. S. 330, and *Eagle Lake Improvement Co. v. United States*, 5 Cir., 141 F. 2d 562, and instructed the jury to the contrary. R 1296-1297. He told the jury that "in the opinion of the court the values fixed by the expert witnesses produced by the defendants in this case appear to the court to be so exaggerated as to make the testimony of these witnesses incredible", for the reason "that it appears to the court that there is no factual basis presented in the testimony of the expert witnesses for the defense upon which the opinion of value given by them can be said to rest". R 1188-1189. He refused to caution the jury against testimony minimizing or diminishing value although he commented on defendants'

valuation testimony as magnifying or exaggerating value. R 96-97.

In his concluding words to the jury, the trial judge said (R 1196) :

“In that connection, I call your attention to the fact that there is a staggering divergence of opinion between the values testified to by those who have testified on behalf of the defendants and those who have testified on behalf of the Government. The total figures of the defendants' claim is \$786,000. The total figures of values asserted by the Government is \$3,865.”

If the tabulation in the appendix to the petition be figured out it will be found that the figure \$786,000 represents the total damage claims stated in the defendants' pleadings and not the total of the values testified to by their witnesses. And if the lowest valuations given by these witnesses and appearing in the tabulation be added, it will be found that the total is roughly \$624,000. From that \$624,000 must be deducted the sum of \$234,000 which was given as the value of the well on parcel 59. R 799. In other words, a fair statement to the jury of the total of the values to which defendants' witnesses testified would have been just about half of what the trial judge stated.

Clearly, the court of appeals reached a sound conclusion when it said, “The refusal to give the requested instruction and the court's bald statement that there is no evidence, considered with all these other occurrences at the trial, constitute prejudicial error and appellants are entitled to a new trial”. R 1307.

ARGUMENT.

**(1) REVIEW OF THE DECISION OF THE COURT OF APPEALS
SHOULD BE DENIED AS THE CASE HAS NOT BEEN
FINALLY DETERMINED BELOW.**

The decision of the court of appeals granted defendants and respondents a new trial. R 1307. Petitioner, citing *Hamilton Shoe Co. v. Wolf Brothers*, 240 U.S. 251, concedes that it is "the general practice of this Court not to review a decision until the case has been finally determined below". P 21. But, citing *United States v. General Motors Corp.*, 323 U.S. 373, petitioner asks that an exception to the general practice be made on the theory that "the ruling of the court below is 'fundamental to the further conduct of the case'." P 21. The reason given is that "the district judge, upon the new trial, would be bound to restrict his comments as directed by the court of appeals, and the decision below is thus final as to that matter". P 21. The reason is unsound. The decision will not restrict the trial judge on retrial from a legitimate exercise of his power to comment on the evidence. It may not be supposed that the trial judge on retrial will again term expert witnesses prevaricators in a matter the subject of expert testimony or assume the role of a partisan or advocate. The only effect of the decision will be the salutary one of securing a fair trial to both sides.

(2) THE TRIAL JUDGE MISDIRECTED THE JURY TO THE PREJUDICE OF DEFENDANTS AND RESPONDENTS ON THE MEASURE OF COMPENSATION.

The case called for an application of the law declared in *Montana Ry. Co. v. Warren*, 137 U.S. 330, and *Eagle Lake Improvement Co. v. United States*, 5 Cir., 141 F. 2d 562. It is clear from the record that the trial judge did not agree with that law. It is also clear from the record that the jury was instructed to the contrary, despite the request of respondents for an instruction based on such law. That the court of appeals soundly concluded that the jury was misdirected, cannot be doubted.

(3) DEFENDANTS AND RESPONDENTS WERE DENIED A FAIR TRIAL AND DUE PROCESS OF LAW BY THE ACTS AND CONDUCT OF THE TRIAL JUDGE.

The court of appeals carefully weighed the acts and conduct of the trial judge by the tests prescribed in *Quercia v. United States*, 289, U.S. 466, 469, 471-472, and found prejudicial error. Any other conclusion in a condemnation action where the Bill of Rights guarantees that private property shall not be taken for a public use without *just* compensation, would be shocking to a sense of justice.

CONCLUSION.

The judgment below is correct and the law is plain. Respondents therefore respectfully submit that the petition for a writ of certiorari should be denied.

Dated, San Francisco,
October 25, 1948.

A. J. SCAMPINI,
WALTER E. HETTMAN,
Counsel for Respondents.

HERBERT CHAMBERLIN,
Of Counsel.